

## CHAPTER I

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### THE ADMINISTRATION'S ECONOMIC ASSUMPTIONS

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Economic projections play an important role in budget estimates. Assumptions about the rate of economic growth and the rate of inflation have a substantial effect on projected tax receipts and on the growth of certain entitlement programs such as Unemployment Insurance. With the rapid growth of federal debt in recent years, interest-rate projections also have a major impact on projected budget outlays.

This chapter briefly compares the Administration's economic projections with those of the Congressional Budget Office (CBO), and discusses the Administration's proposed fiscal policy. The CBO economic projections are used in later chapters in reestimating the Administration's 1987 budget proposals.

### THE SHORT-RUN OUTLOOK

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While economic growth was sluggish last year, conditions appear to be favorable for a resumption of somewhat stronger growth this year. The slowdown last year was associated with a large reduction in inventory investment and a further deterioration of the trade balance. But the inventory adjustment appears to be largely over, and since the first quarter of last year the dollar has been on a substantial decline. Over the second half of the year, particularly in the last quarter, long-term interest rates fell sharply; during that same quarter, the stock market surged. Finally, early this year oil prices dropped precipitously. For these reasons, there is a fairly wide consensus among forecasters that the near-term economic outlook is quite favorable.

CBO's short-run economic forecast for 1986 and 1987 and that of the Administration are conditional on several specific assumptions regarding policy and such key factors as dollar exchange rates and oil prices. The CBO forecast is based on these assumptions:

- o The budget deficit targets of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) are assumed to

TABLE I-1. COMPARISON OF ADMINISTRATION AND CBO SHORT-RUN ECONOMIC FORECASTS (By calendar year)

Economic Variable	Actual 1985	Forecast 19861987	
Fourth Quarter to Fourth Quarter (Percent change)			
Real GNP			
Administration	2.5	4.0	4.0
CBO	2.5	3.6	3.0
Nominal GNP			
Administration	5.8	8.0	8.3
CBO	5.8	7.6	7.2
Consumer Price Index <u>a/</u>			
Administration	3.2	3.7	4.1
CBO	3.2	3.5	4.5
Calendar year Average (Percent)			
3-Month Treasury Bill Rate			
Administration	7.5	7.3	6.5
CBO	7.5	6.8	6.7
10-Year Government Bond Rate			
Administration	10.6	8.9	8.5
CBO	10.6	9.0	8.9
Civilian Unemployment Rate			
Administration <u>b/</u>	7.2	6.7	6.5
CBO	7.2	6.7	6.7

SOURCE: Congressional Budget Office.

- a. Urban wage and clerical workers.
- b. The Administration's projection is for the total labor force including armed forces residing in the United States, while CBO's is for the civilian labor force excluding armed forces. In recent years, the former has tended to be 0.1 to 0.2 percentage points below the rate for the civilian labor force alone.

be fully implemented. The budget deficit is estimated at \$208.3 billion in fiscal year 1986, and for fiscal year 1987 is assumed to be at the target of \$144 billion.

- o With respect to monetary policy, the behavior of the monetary aggregates is assumed to be within the ranges announced by the Federal Reserve on February 19.
- o Food prices are expected to increase less than the general price level.
- o The international value of the dollar is assumed to continue to decline, though less rapidly than in the last three months.
- o The price (refiners' acquisition cost) of imported oil is assumed to fall about 18 percent between the last quarter of 1985 and mid-1986. 1/

In general, the assumptions underlying the Administration's forecast appear to be similar to CBO's. Both forecasts were prepared before the recent drop in oil prices. Spot prices are currently well below the oil price assumed in CBO's and the Administration's forecasts. The Administration's forecast assumes the fiscal policy contained in its 1987 budget, with large reductions in the federal deficit of roughly the magnitude assumed by CBO.

Both CBO and the Administration expect good economic performance in 1986 and 1987, with the Administration's forecast showing somewhat stronger economic growth than CBO's (see Table I-1). According to CBO's forecast, growth picks up from the sluggish 2.5 percent rate during 1985 (fourth quarter to fourth quarter) to 3.6 percent during 1986 and then slows moderately to 3.0 percent during 1987. 2/ The Administration's forecast

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1. For a detailed discussion of the current economic outlook and CBO's forecast, see Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1987-1991 (February 1986), pp. 1-58.
  2. Neither the Administration's nor CBO's forecast reflects the recent GNP revisions for the fourth quarter of 1985. After the revisions, real growth during 1985 (fourth quarter to fourth quarter) was 2.3 percent rather than 2.5. If the same level of GNP is assumed for 1986, this would raise growth to 4.0 percent in the CBO forecast.

shows growth of 4.0 percent during both years. Thus, the difference in growth forecasts for 1987 is one percentage point, a magnitude that is of consequence for budget estimates but well within the usual range of economic forecast errors. As this report is being written, the consensus for real growth among private forecasters is very slightly below CBO's estimates. The plunge in oil prices early this year has, however, caused many private forecasters to begin raising their growth forecasts. If lower oil prices prevail, the consensus forecast of growth could eventually turn out to be stronger than projected by CBO.

Both the CBO and Administration forecasts show slightly higher inflation in 1986 and 1987 than in 1985. In 1987, CBO has inflation slightly higher than the Administration. The Administration's forecast for short-term interest rates is 0.5 percentage point higher in 1986 than CBO's, but slightly lower in 1987. The temporary rise in short rates in the Administration's forecast stems in part from its forecast of relatively strong growth. Long-term rates, as measured by the 10-year government bond rate, decline moderately in the Administration's 1987 forecast, but remain essentially flat in the CBO forecast. The forecasts for unemployment are virtually the same.

The CBO's and the Administration's forecasts contain a considerable measure of uncertainty. Two major factors contributing to the uncertainty are oil prices and the value of the dollar—both of which have shown large movements in recent months. Lower oil prices and a cheaper dollar both tend to raise real growth. But while lower oil prices would help to reduce the rate of inflation, a cheaper dollar would tend to raise it.

#### MEDIUM-TERM PROJECTIONS

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Neither CBO nor the Administration attempts to forecast the economy beyond the end of 1987. In making their projections for 1988 through 1991 (shown in Table I-2), both organizations rely on simple rules of thumb based on historical experience.

CBO's projection is based on average economic growth for nine-year periods following recession troughs. On average, since World War II, the annual growth rate of real GNP over such nine-year periods has been 3.7 percent; and the CBO projection closely approximates that result. In addition, CBO's projection shows inflation, measured by the Consumer Price Index, remaining relatively flat over the 1988-1991 period. Nominal and real interest rates are both assumed to decline over the period, reflecting the impact of lower deficits under current law. By 1991, real interest rates

TABLE I-2. COMPARISON OF ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS, 1986-1991 (By calendar year)

Economic Variable	Actual 1985	1986	1987	1988	1989	1990	1991
Nominal GNP (billions of current dollars)							
Administration	3,993	4,274	4,629	4,995	5,359	5,709	6,036
CBO	3,993	4,269	4,583	4,930	5,313	5,725	6,152
Real GNP (percent change, year over year)							
Administration	2.3	3.4	4.0	4.0	3.9	3.6	3.5
CBO	2.3	3.2	3.1	3.3	3.5	3.5	3.2
Consumer Price Index <u>a</u> / (percent change, year over year)							
Administration	3.5	3.5	4.1	3.7	3.3	2.8	2.1
CBO	3.5	3.4	4.2	4.4	4.4	4.3	4.3
GNP Deflator (percent change, year over year)							
Administration	3.3	3.5	4.2	3.7	3.3	2.8	2.1
CBO	3.3	3.6	4.1	4.1	4.1	4.1	4.1
Three-Month Treasury Bill Rate (percent)							
Administration	7.5	7.3	6.5	5.6	4.8	4.3	4.0
CBO	7.5	6.8	6.7	6.4	6.1	5.7	5.4
Ten-Year Govern- ment Bond Rate (percent)							
Administration	10.6	8.9	8.5	7.3	5.5	4.8	4.5
CBO	10.6	9.0	8.9	8.2	7.5	6.8	6.1
Civilian Unemploy- ment Rate (percent)							
Administration <u>b</u> /	7.2	6.7	6.5	6.3	6.1	5.8	5.6
CBO	7.2	6.7	6.7	6.5	6.3	6.1	6.0

SOURCE: Congressional Budget Office

a. Urban wage and clerical workers.

b. The Administration's projection is for the total labor force. See footnote b of Table I-1.

in CBO's projection are about equal to the average real rates over the last 30 years.

The Administration's medium-term projections differ somewhat from CBO's in regard to real growth, inflation, and interest rates; the differences are smaller for unemployment and nominal GNP. The Administration's medium-term projections for economic growth appear to be based on a projection of hours worked from the end of 1985 to the end of 1991, and an assumption that the growth in output per hour will approximate the average growth rate in the 1948-1981 period. <sup>3/</sup> Its projection for real growth is not much higher than CBO's for any one year. By 1991, however, the level of real GNP is about 2½ percent higher than in CBO's projection. The economic expansion envisioned in the Administration's projection would be above average for the period since World War II, but well within the range of historical experience. It is, for example, within CBO's "high growth path" projection—based on the pattern of the strongest nine-year expansion of the postwar period, which occurred after the recession of 1957-1958. <sup>4/</sup>

The Administration's projection shows inflation trending downward during the 1988-1991 period, reflecting the assumption that monetary policy will tend to reduce growth rates for money aggregates. CBO's flat rate of inflation implicitly assumes that labor markets start to tighten when the unemployment rate nears 6.0 percent. The Administration clearly assumes that this does not occur until unemployment is somewhat lower. By 1991, the increase in the Consumer Price Index under the Administration's projection is about half the increase shown in the CBO projection, or 2.1 percent versus 4.3 percent (see Table I-2). By 1991, the CPI is roughly 5 percent higher with CBO's projection than with the Administration's.

Consistent with the projected decline in inflation, the Administration's projection shows interest rates falling considerably more than does CBO's: by 1991, the three-month Treasury Bill rate averages 4.0 percent and the ten-year government bond rate averages 4.5 percent. Adjusted for inflation, however, the Administration's real interest rates end up approximately the same as CBO's, although CBO's projections imply that the real rates decline more gradually.

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3. See Economic Report of the President (February 1986), pp. 67-69.

4. See Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1987-1991 (February 1986), pp. 8-10.

The Administration's projection of nominal GNP is above CBO's during 1986-1989, but the difference reverses in 1990-1991. Nonetheless, the Administration projects a lower taxable share of GNP, which tends to reduce the Administration's budget receipts relative to CBO's.<sup>5/</sup> The differences in the unemployment projections are relatively small. By 1991, the Administration unemployment projection, on a comparable basis, is only a few tenths of a percentage point below CBO's.

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5. For further discussion of revenues, see Chapter II.





## CHAPTER II

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### THE ADMINISTRATION'S REVENUE PROPOSALS

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The Administration's budget program contains relatively modest revenue increases above those that would result from current law. Relative to CBO baseline projections, the President's revenue proposals would increase total revenues--including off-budget Social Security revenues--by \$6 billion in 1987, \$9 billion in 1989, and \$7 billion in 1991. CBO's estimates of total revenues including the President's proposals are close to the Administration's--virtually the same as the Administration's estimate in 1987, \$5 billion below in 1988, and \$4 billion above in 1989. After 1988, CBO's reestimates add revenues in each year. In 1991, CBO's estimate is \$26 billion--about 2 percent--above the Administration's. Almost all of the CBO reestimates derive from the use of somewhat different economic assumptions.

### ESTIMATED REVENUE LEVELS

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CBO estimates revenues under the Administration's program (including off-budget revenues) at \$850 billion in 1987, \$928 billion in 1988, and \$1,150 billion in 1991 (see Table II-1). Administration revenues are projected to grow slightly faster than GNP in 1986-1988, reaching 19.2 percent of GNP in 1988, and more slowly than GNP thereafter, claiming 19.0 percent of GNP in 1991.

CBO projects lower real growth and higher inflation throughout the projection period than does the Administration. While differences between projected real growth rates are significant, differences between projected inflation rates are larger. The net result is that CBO's projected nominal GNP path rises from \$65 billion below the Administration's GNP in 1988 to \$116 billion above the Administration's GNP in 1991. (For a discussion of CBO's economic projections, see Chapter I.) Federal revenues roughly follow nominal income because over 90 percent of revenues come from income and payroll taxes. Therefore, the differences in nominal GNP paths

TABLE II-1. ADMINISTRATION AND CBO ESTIMATES OF  
ADMINISTRATION'S PROGRAM REVENUES BY SOURCE  
(By fiscal year, in billions of dollars)

Revenue Source	1986	1987	1988	1989	1990	1991
<b>Administration Estimates</b>						
Individual Income Taxes	353.7	386.0	425.9	455.5	482.0	516.3
Corporate Income Taxes	70.9	86.7	101.2	111.8	119.7	125.6
Social Insurance Taxes and Contributions	280.4	302.8	335.0	358.1	384.1	407.7
On-budget	82.5	88.5	92.1	94.5	97.9	102.3
Off-budget <u>a/</u>	197.9	214.3	242.8	263.7	286.1	305.4
Excise Taxes						
Windfall profit taxes	4.1	2.8	1.9	1.5	1.3	1.0
Other	30.5	32.4	31.6	31.2	31.9	32.6
Other	37.5	39.7	37.7	38.0	39.1	40.8
Total Revenues	777.1	850.4	933.2	996.1	1,058.1	1,124.0
Percent of GNP	18.5	18.7	19.0	18.9	18.8	18.9
<b>CBO Estimates</b>						
Individual Income Taxes	354.2	385.0	422.0	460.8	500.3	542.7
Corporate Income Taxes	72.2	89.4	101.2	109.7	114.1	116.0
Social Insurance Taxes and Contributions	280.8	302.3	333.5	357.7	386.8	415.8
On-budget	82.5	88.7	92.6	95.6	100.0	104.6
Off-budget <u>a/</u>	198.3	213.7	240.9	262.1	286.8	311.3
Excise Taxes						
Windfall profit taxes	4.2	2.0	1.6	1.6	1.5	1.4
Other	30.3	32.3	31.4	31.1	31.7	32.5
Other	37.1	38.9	38.2	39.0	40.4	41.6
Total Revenues	778.7	849.9	928.1	999.9	1,074.8	1,150.2
Percent of GNP	18.6	18.9	19.2	19.2	19.1	19.0

SOURCES: Budget of the United States Government for Fiscal Year 1987 and  
Congressional Budget Office.

a. Off-budget revenues consist of Federal Old-Age and Survivors Insurance Trust  
Fund and Disability Insurance Trust Fund (OASDI) revenues.

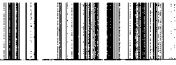
work to reduce CBO's estimates of Administration program revenues below the Administration's estimates in 1987 through 1989 and to raise them above the Administration's in 1990 through 1991 (see Table II-2).

Another major economic assumption affecting revenue projections is the share of GNP that will take the form of taxable income, both individual and corporate. CBO projects this share as being higher than does the Administration. This assumption works to raise CBO's estimated revenues above the Administration's in each year (see Table II-2). It mostly offsets the effect of the difference in nominal GNP paths in 1987 through 1989, and reinforces the effect in 1990-1991. Because the government receives tax

TABLE II-2. CBO'S REESTIMATES OF ADMINISTRATION'S PROGRAM REVENUES (By fiscal year, in billions of dollars)

	1987	1988	1989	1990	1991
Revenues as Estimated by Administration <u>a/</u>	850	933	996	1,058	1,124
Reestimates Caused by Differences in Assumptions About:					
Nominal GNP path	-8	-9	-8	1	18
Income shares	6	7	8	8	11
Timing adjustments <u>b/</u>	3	-4	3	6	-5
Proposals	-1	1	1	2	2
Total Reestimates	<u>c/</u>	<u>-5</u>	<u>4</u>	<u>17</u>	<u>26</u>
Revenues as Estimated by CBO <u>a/</u>	850	928	1,000	1,075	1,150

- a. Unless otherwise noted, aggregate program revenues include payroll tax receipts of the Federal Old-Age and Survivors Insurance Trust Fund and Disability Insurance Trust Fund (OASDI), which are off-budget.
- b. Including some technical adjustments.
- c. Negative reestimate of less than \$500 million.



payments with various lags after incomes are earned, the full budgetary effects of income growth usually take two years to play out. The net result of these assumptions is to leave CBO's estimates of the Administration's program revenues close to the Administration's estimates in 1987 through 1989 and above the Administration's in 1990-1991.

Several Administration program proposals were reestimated by CBO. Only two reestimates are significant. CBO assumes that the federal government will not receive the \$1 billion in petroleum overcharge restitution funds budgeted in 1987. CBO does not follow the Administration's practice of assuming a reduction in aggregate wages as a result of proposed reductions in federal civilian employee pay raises and, therefore, the CBO estimate of the revenue effect of this proposal is zero. CBO's baseline economic and technical estimating assumptions are described in more detail in Appendix B.

#### PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION

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CBO estimates that the President's legislative and administrative proposals would add \$36 billion to revenues between 1986 and 1991 (see Table II-3). Half of the legislative proposals are repeats from last year--as is the major administrative proposal, an increase in Internal Revenue Service staffing. User fees and trust fund reforms account for about 10 percent of net proposed revenue increases, with user fee increases of \$1 billion. Other proposals for an additional \$12 billion in user fees are included on the spending side of the budget as offsetting receipts and collections.

Education tax incentive proposals (education savings accounts and tuition tax credits) would reduce income taxes by roughly \$6 billion during 1987-1991. Over half of proposed revenue increases would result from Internal Revenue Service (IRS) initiatives, such as increased enforcement made possible by additional IRS examiners, more automation, and more return-checking. Another 40 percent of increased revenues would come from excise tax and fee increases. The extension of the higher cigarette tax enacted in 1982 in the Tax Equity and Fiscal Responsibility Act (TEFRA) would provide about two-thirds of this increase. A two-percentage-point increase in employee contributions to Civil Service Retirement would provide another \$6 billion, or 15 percent, of new revenues. Descriptions of these proposals follow.

TABLE II-3. CBO ESTIMATES OF REVENUE EFFECTS OF PRESIDENT'S LEGISLATIVE AND ADMINISTRATIVE PROPOSALS, BY MAJOR TYPE  
(By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	1991	Cumulative 1986-1991 Changes
CBO Baseline <u>a/</u>	777.8	844.0	921.0	991.3	1,067.5	1,143.6	
Proposed Changes							
Education tax incentives	---	-0.4	-0.8	-1.2	-1.5	-1.7	-5.6
IRS initiatives <u>b/</u>	<u>c/</u>	2.2	3.3	4.5	4.4	4.9	19.4
Excise taxes and fees (net)	0.9	2.7	2.8	2.8	2.8	2.7	14.7
Civil Service Retirement and Railroad Industry taxes	---	1.1	1.6	1.5	1.5	1.5	7.2
Other							
Acceleration of state and local deposits of payroll taxes	---	0.4	0.3	1.2	0.1	-0.9	1.1
All other	---	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Total	0.9	5.9	7.1	8.6	7.2	6.5	36.3
President's Budget as Estimated by CBO	778.7	849.9	928.1	999.9	1,074.8	1,150.2	

- a. Revenues under current law, including extensions of Superfund, Airport and Airway, and Highway Trust Fund taxes at rates in effect upon expiration of these taxes in September 1985, December 1987, and September 1988, respectively. Baseline also includes off-budget OASDI revenues.
- b. Mostly tax collection gains from proposed Internal Revenue Service expenditures.
- c. Revenue gain of less than \$50 million.



TABLE II-4. CBO ESTIMATES OF REVENUE EFFECTS OF  
ADMINISTRATION'S PROPOSED EDUCATION TAX  
INCENTIVES (By fiscal year, in billions of dollars)

Proposal	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Education Savings Accounts	a/	-0.2	-0.3	-0.6	-0.7	-1.8
Tuition Tax Credits	<u>-0.4</u>	<u>-0.6</u>	<u>-0.9</u>	<u>-0.9</u>	<u>-0.9</u>	<u>-3.8</u>
Total	-0.4	-0.8	-1.2	-1.5	-1.7	-5.6

a. Revenue loss of less than \$50 million.

#### Education Savings Accounts

Under the education savings account proposal, parents could set up an account to fund post-secondary education for each dependent child under 18 years of age, and contribute up to \$1,000 per year to the account. Interest earnings would be tax-free. The \$1,000 maximum contribution would decline for parents with adjusted gross incomes (AGI) above \$40,000, reaching zero for those with AGIs above \$60,000. The accounts could be spent on tuition and room and board for full-time students in degree programs. For part-time students, expenditures would be restricted to tuition.

The revenue loss from these accounts would be small initially, but would grow as amounts deposited cumulated, reaching \$700 million in 1991 (see Table II-4). Revenue losses would continue to increase after 1991 and could reach \$2 billion in 1996.

Several bills permitting education savings accounts have been introduced in the 98th and 99th Congresses, although none has been voted out of committee. These bills differ from the Administration's proposal in that contributions would be deductible from the parents' AGI and, in most bills, the accumulated value of an account would be included in the child's AGI after college. Initial-year revenue losses are much higher when deposits are

deductible, but the difference narrows over time because the account ultimately is included in the AGI of the child.

### Tuition Tax Credits

The President's proposed tax credit for elementary and secondary school tuition would be capped at \$300 or 50 percent of tuition costs up to \$600. Like the education savings accounts, this proposal was also included in the President's last three budgets. During a two-year transition period, the proposed credit would rise from \$100 to \$200 and then stay at \$300 per dependent. The maximum would be phased downward for taxpayers with AGIs above \$40,000. Taxpayers with AGIs of \$60,000 or more would not be eligible for the credit. The credit would not be refundable. The estimated revenue loss from the credit would level off at roughly \$900 million per year when it was fully phased in.

One bill to establish a tuition tax credit has been introduced in the 99th Congress (H.R. 96). A number of tuition credit bills were introduced in the 98th Congress. One of these, S. 528, similar to this proposal, was reported out of the Senate Committee on Finance but did not come to a floor vote.

If enacted, the tax credit would constitute a relatively large share of total general-purpose federal aid proposed in the budget for elementary, secondary, and vocational education, providing about \$4 billion in tuition subsidies over the 1987-1991 period (see Table II-4). Currently, the major source of untargeted federal aid is the Chapter II block grant, with proposed budget authority of \$500 million for 1987. Most of the remaining \$6.7 billion in aid proposed for elementary, secondary, and vocational education is targeted on children or districts with special needs, on districts with federal installations, or on particular services such as science education.

### Internal Revenue Service Initiatives

Of the \$19.4 billion in increased revenues resulting from proposed IRS initiatives, over half are attributed to increases in IRS staff (see Table II-5). The Administration proposes to increase the permanent IRS examination staff by 2,500 positions each year over the 1987 to 1989 period (for a total increase of 7,500 positions), with some advance hiring taking place during 1986. About three-quarters of the additional personnel would be examiners. Other new personnel would provide direct and indirect support to the examiners. Also proposed is the purchase of about 9,000 portable computers

TABLE II-5. CBO ESTIMATES OF REVENUE EFFECTS OF  
ADMINISTRATION'S PROPOSED INTERNAL  
REVENUE SERVICE INITIATIVES  
(By fiscal year, in billions of dollars)

Proposal	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
Examination Staff Increases	0.6	1.5	2.6	2.8	2.9	10.4
Increased Automation of Examination System	0.3	0.8	1.2	1.3	1.5	5.1
Increased Follow-Up of Information Returns	0.2	0.2	0.2	0.2	0.2	1.0
Charges for Collection Costs	0.3	0.4	0.4	0.4	0.4	1.8
All Other	<u>0.7</u>	<u>0.4</u>	<u>0.2</u>	<u>-0.2</u>	<u>a/</u>	<u>1.1</u>
Total	2.2	3.3	4.5	4.4	4.9	19.4

a. Revenue loss of less than \$50 million.

for use by auditors, along with additional desktop personal computers and related computer hardware. The increased automation would bring in an estimated \$5 billion in collections over 1987-1991. Another proposal would increase the follow-up of discrepancies between information returns supplied by third parties (such as W-2 and 1099 forms) and taxpayer returns.

In addition, the Administration proposes to replace existing penalties for overdue taxes with charges calibrated to cover the total cost of collecting the money, and to establish user charges for IRS letters of determination and private letter rulings. Letters of determination are requested primarily by employee benefit plans and tax-exempt organizations. Private letter rulings are clarifications of IRS positions in particular cases, such as those involving changes in accounting periods or methods. The implementation of the fees for letters and rulings will require legislation. Taken together, they would generate about \$30 million in revenues per year.



The Administration program contains roughly \$1.6 billion in IRS spending over 1986-1991 to fund these initiatives. Most of these funds are earmarked for new hiring. The increased collections are also predicated upon a 1986 supplemental appropriation for IRS of \$340 million.

### Excise Taxes and Fees

As mentioned above, the principal revenue raiser among the excise tax proposals is the extension of the 16-cents-per-pack tax on cigarettes, scheduled under current law to drop to 8 cents per pack on March 15, 1986. The maintenance of the 16-cents-per-pack rate would generate about \$9 billion in net revenues over 1986-1991 (see Table II-6).

TABLE II-6. CBO ESTIMATES OF REVENUE EFFECTS OF ADMINISTRATION'S PROPOSED EXCISE TAXES AND FEES (By fiscal year, in billions of dollars)

Proposal	1986	1987	1988	1989	1990	1991	Cumulative 1986-1991 Changes
Extension of Cigarette Tax Increase (net)	0.8	1.7	1.7	1.7	1.7	1.7	9.3
Black Lung Fee Increase (net)	---	0.2	0.2	0.2	0.2	0.3	1.1
Superfund Tax Increase (net) <u>a/</u>	0.1	0.5	0.4	0.4	0.4	0.4	2.3
Elimination of Highway Excise Tax Exemptions (net)	---	0.2	0.2	0.2	0.2	0.2	1.0
Nuclear Regulatory Commission User Fees	---	0.2	0.2	0.2	0.2	0.2	0.8
All Other	---	<u>b/</u>	<u>b/</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total	0.9	2.7	2.8	2.8	2.8	2.7	14.7

a. Increases in Superfund revenues above those that would be generated under an extension of the tax rates in effect at the end of September 1985, when Superfund taxing authority expired.

b. Revenue increase of less than \$50 million.

The proposed Black Lung Disability and Superfund tax increases included in this year's budget appeared in last year's budget as well. The Administration proposes to increase the Black Lung Disability Trust Fund tax on coal production from \$1.00 to \$1.50 per ton for underground mining and from \$0.50 to \$0.75 per ton for surface mining. These were last adjusted by the Black Lung Revenue Act of 1981 (Public Law 97-119), which raised the taxes from \$0.50 to \$1.00 per ton for underground mining and from \$0.25 to \$0.50 per ton for surface mining. The proposed fee increases are sought to help offset trust fund debt, which is increasing by more than \$400 million per year. The higher fees are estimated to raise total revenues by about \$1 billion over the 1987-1991 period.

The Administration proposes to reauthorize and expand the taxing authority under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, which expired at the end of fiscal year 1985, leaving the proposed mix of taxes unspecified. These taxes finance the clean-up of waste sites by the Hazardous Substance Response Trust Fund, or Superfund. The Administration proposes to provide the fund with about \$5 billion in revenues over the 1986-1991 period. This is about \$3 billion above the CBO baseline estimate of Superfund revenues generated under an extension of the tax rates in effect in September 1985. The \$5 billion in Superfund receipts would meet the Administration's proposed spending for waste removal over the period. This level of funding would provide \$3.6 billion in total budget revenues over 1986-1991 (measured as total Superfund receipts less resulting income tax offsets).

The Administration proposes repeal of the present gasohol and alcohol exemptions from federal gasoline and diesel fuel excise taxes. It also proposes repeal of the exemptions from tire, gasoline, and diesel fuel taxes available to bus operators. CBO's estimate of the 1987-1991 revenue gain from repeal of the exemptions is \$1.0 billion. This estimate assumes a coordinated phasing-out of the existing alternative alcohol fuels tax credit, which is not specified in the Administration's proposal. The revenue gain would be lower if the credit were to remain in place. The budget proposals also include several new user fees, including fees for services performed by the Nuclear Regulatory Commission and the Federal Emergency Management Agency.

#### Civil Service Retirement (CSR) and Railroad Taxes

The Administration proposes to increase the CSR contribution rate for most federal civilian employees from 7 percent to 9 percent of pay, effective January 1, 1987. Variants of this proposal were included in the Administra-